

**Minutes - Approved
Audit and Finance Committee
June 23, 2015
3 p.m.
Old Jail Conference Room**

Present: Steve Thayer, Kathy Miller, Mack Cook, Peter Salton (arrived at 3:25 p.m.)
Absent: Chuck Rankin, Laura Shawley, Scott Weatherby
Guests: Don Barber, Steve Locey, Rick Snyder, Judy Drake

Call to Order

Mr. Thayer called the meeting to order at 3:00 p.m.

Approval of Minutes of May 26, 2015

It was MOVED by Mr. Cook, seconded by Mr. Thayer, and unanimously adopted by voice vote by members present, to approve the minutes of May 26, 2015 as submitted. MINUTES APPROVED.

Executive Director's Report

Mr. Barber reported the Department of Financial Services responded yesterday to a request made six weeks ago as a follow-up to the Municipal Cooperative Agreement with a couple of additional changes that they are requesting be made to the document to comply with corporate law. Mr. Locey has communicated with the Consortium's attorney, John Powers, and the Committee will meet electronically over the next few days to produce a recommendation that will be presented electronically for the Board to consider prior to July 1st. The only significant change is that in the future electronic votes will need to be unanimous.

Mr. Barber reported he and Mr. Locey have been speaking with the Towns of Virgil, Truxton, Cortlandville, Cortland County, City of Elmira, and the Town of Newfield about possibly joining the Consortium. The Towns of Newfield and Cortlandville are interested in the Silver Plan which has not yet been adopted by the Consortium. Mr. Locey said in addition to the Consortium's increase being substantially well below what the market increase will be for 2016 the Town of Newfield would have slightly better benefits if the Silver Plan was adopted.

Mr. Barber reported Phil Vanwormer is interested in joining this Committee as a labor representative and will be attending future meetings.

Last month Mr. Barber reported the County could not handle the Consortium's Ethics complaints. Since then he has spoken to the Community Dispute Resolution Center and they are willing to provide that third party service to the Consortium. Once details are worked out he will bring a proposal forward for consideration.

Meeting Date Change

The July meeting was rescheduled from July 28th to July 21st at 2:30 p.m. Future meetings will be held at 2:30 p.m.

Financial Update

Mr. Locey reviewed preliminary information for the 2016 budget. The budget was built with a five percent increase through 2019; however, medical claims are running 20% below budget which presents an opportunity to go below that level of increase for 2016. He reviewed the information provided to members and said the 2016 budget shows \$39.8 million in premium income which is 5% higher than the \$37.9 million that was paid out this year and is also only based on data from the existing population. All of the other revenues are in line with what currently exists and is currently budgeted at \$40.819 million. At the present time expenses are \$27.2 million in medical claims (8% trend increase) and could be slightly lowered for 2016, and RX claims are \$8.7 million over the 2015 level of \$7.9 million. There is an increase of 3% in Excellus admin. fees, and \$10,000 is built in for flu clinics. There is also a Stop Loss increase of 20% built in the 2016 budget as a result of the losses High Mark has taken. Mr. Locey said this is an area that warrants further discussion in addition to following up on the waiver that was previously requested of the State. Mr. Locey said he would like to see more data from 2015 but it looks like there is a very good chance the Consortium could approve a rate increase of lower than 5%.

Mr. Barber said a meeting took place today concerning a municipal investment cooperative which would allow the Consortium to invest in the same vehicles that municipalities are allowed to invest in and earn a greater interest rate. He will keep the Committee informed as this effort moves forward. *Mr. Barber will forward Article 3A of the General Municipal Law to Mr. Locey.*

Mr. Salton arrived at this time.

Mr. Thayer asked what the claims trend currently is in New York State. Mr. Locey said the average increase for all business is between 8-9% and community-rated products are running above 12% on average.

Ms. Drake expressed concern with adjusting claims expense numbers too soon; Mr. Thayer agreed and said he would like to see a couple more months of data.

BMI Audit Recommendation

Mr. Locey reported he is going through the spreadsheet of the findings identified in the medical claims audit by BMI with Mr. Barber and Beth Miller and some of the items can be taken care of internally. He is updating the work plan provided by BMI and making sure that each of the action items are addressed in the next couple of weeks. *He will be following up with BMI and will provide an updated document to the Committee for review at the next meeting.* A report will also need to be provided to the State when the items are resolved.

Determining Process for Determining Actuarial Value of Benefit Plans

Mr. Locey said the Committee needs to lay out the steps that need to be taken to evaluate the existing two metal level plans as well the Silver and Gold metal plans in terms of reviewing the plans and the current actuarial value to see where they are in relation to the required actuarial value. The next step would be to go through the steps of modifying the plan design to get it back in line, make any adjustments, and get plan documents approved before January 1st. Mr. Locey asked for the Committee's guidance on the process for this to happen. Mr. Barber asked when the actuarial calculator would be updated for 2016. Mr. Locey said although this won't happen until Fall the 2015 calculator could be used now and would show

whether the plans are outside of the range. He believes the two plans approved by the Consortium are currently out of the actuarial range since they were produced prior to 2015. If the process were to wait until Fall there would not be sufficient time to make changes to the plan documents and have them approved by the State by January 1st. He recommended that the Board act on changes by November 1st.

Ms. Drake recommended that a special notice go out to the municipalities that have the metal plans to make sure they are well aware of this. She also suggested the Joint Committee on Plan Structure and Design be kept updated at each meeting as the process moves forward. It was noted the July Joint Committee meeting was canceled. If this the process moves swiftly the Board of Directors could vote at the scheduled meeting in September, otherwise, a special meeting will need to be scheduled in October.

Mr. Barber said the metal level plans have a wellness component, however, the Board has not adopted a wellness component. Mr. Cook said since there is not another committee to bring a wellness component into a health plan the Owing Your Own Health Committee at its July meeting will consider making a recommendation on what the wellness component should be. Mr. Locey said there is no requirement in the Affordable Care Act to have a wellness component but there is a provision that allows for wellness programs to have premium differentials. He said this would be important for the metal level plans from a competitive standpoint because the metal level plans in the open market all have wellness plan attached to them. Mr. Cook said the goal of the Committee will be to make a recommendation to move a plan forward to the Joint Committee on Plan Structure and Design at its August meeting with a goal to be considered at the September Board of Directors meeting. Mr. Locey said he doesn't expect a wellness plan to have a high enough cost to affect the actuarial value.

Ms. Drake suggested that any adjustments that need to be made to plans be presented to the Board at the same time through a transparent process to ensure everyone is aware of plan changes.

Discussion of Fund Balance Target

Mr. Barber said part of the budget-setting process is to determine the level of fund balance and suggested this Committee bring forward ideas to be considered by the Board. The Consortium currently has reserve requirements set by the State that are being made; however there are others that the Consortium has established that the Board has control over setting. The required reserves are the IBNR (Incurred But Not Reported) and is 9.76% of the total premium income for the year, Capital Surplus Reserve Account is 5%, and the Unencumbered Fund Balance was 26.4% of the premium income for the year. The Catastrophic Claims Reserve Fund was established last year at \$600,000 and was \$1 million this year and does not include the Rate Stabilization Reserve that was established this year at \$1.65 million. This equates to approximately \$2.7 million in reserves set aside which is 8% of premium income. Mr. Locey said one item that needs to be discussed is the level of the unencumbered fund balance and how to bring it down if it gets too high.

Mr. Cook said one number the Consortium does not have control over is the Stop Loss insurance amount. He suggested having an unencumbered reserve of approximately 18% and said there is supporting literature to show this being a best practice for municipalities. He suggested bringing the unencumbered balance down to 18% and placing the remainder into a reserve for Stop Loss because of stresses that the Affordable Care Act and the Exchanges can place on the Stop Loss industry.

Mr. Salton said he believes the Consortium should be using some of the funds towards making it so that families and employers are not paying \$18,000 for health care annually. Ms. Miller spoke of the high premium and out of pocket costs her daughter has to pay for health insurance on the open market but agreed Stop Loss is a consideration as well.

Mr. Salton asked if there is any way to track where the funds from reserves came from. Mr. Locey said the funds primarily come from premiums although there are some prescription drug rebates and interest income. Mr. Locey said over the next five years the unencumbered fund balance is expected mitigate the rate. By 2019 the current unencumbered fund balance level of 22.5% of premium income will be lowered to being 6% of premium income.

Mr. Cook suggested building a model to take the unencumbered fund balance level to 18% at the end of 2015 and moving excess into the Rate Stabilization Reserve to see how long a premium can be held while drawing down on the Rate Stabilization Reserve to when it crosses over. Mr. Snyder said he could support this and said he generally likes to see a fund balance target of 15-20%. There was consensus that this approach would be prudent. Mr. Locey said he is looking for some basic parameters and guidelines from the Committee but didn't recommend a formal policy be approved by the Board of Directors. He suggested the Committee make a recommendation to the Executive Committee that would be recorded in the minutes on how the budget process should flow in a way that would provide the greatest flexibility in the future.

Prescription Drug Claims Audit

Mr. Locey said when the Request for Proposals was issued for the medical claims audit there were also proposals request for a prescription drug audit and provided a summary of those responses. To move forward he recommended a proposer to audit the claims from ProAct and five the prescription drug rebate companies. He also recommended both the medical claims audit and prescription drug audit be done every other year.

Mr. Locey said the cost of the prescription drug audit is included in the budget. *Ms. Drake asked that Mr. Locey break out some of the fees on the budget document produced by Mr. Locey.*

Next Agenda Items

The following items were suggested for inclusion on the next agenda:

- Ethics complaint review proposal;
- Update on Medical Claims Audit;
- Actuarial Value calculator demonstration;
- Recommendation of process to establish Fund Balance target;
- Preliminary discussion of 2016 budget; and
- Discussion of Wellness Component in health plans

Adjournment

The meeting adjourned at 4:39 p.m.

Respectfully submitted by Michelle Pottorff, Administrative Clerk